



*State of Rhode Island and Providence Plantations*

*Revenue & Caseload Estimating Conference*

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To: The Honorable Lincoln C. Almond, Governor  
The Honorable John B. Harwood, Speaker of the House  
The Honorable William V. Irons, Senate Majority Leader

From: Michael O'Keefe, House Fiscal Advisor *Michael O'Keefe*  
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Subject: November 2001 Consensus Revenue Estimating Conference

**Summary**

The Revenue Estimating Conference met November 13 and 14 in open public meetings and adopted the economic forecast, reviewed and revised enacted FY 2002 revenue estimates and prepared first FY 2003 estimates. The Conference revised the FY 2002 estimates downward by \$35.7 million based on FY 2001 actual revenues, collections through October, and the revised economic forecast of recession during FY 2002.

The Conference estimated FY 2003 revenues at \$2,517.5 million, which is \$20.7 million less than the revised FY 2002 estimates. The estimates are based on current laws, which include lower income tax rates and expiration of the hospital tax. Tables showing the estimates and the changes are included at the end of this report.

**Economic Forecast**

The Conferees met with the consulting economists from DRI-WEFA and Economy.com on November 5 to review economic forecasts (Adrienne Ortyl and Steven Cocharane, respectively). Legislation enacted by the 1998 Assembly amended the Revenue Estimating Conference statutes to require a consensus economic forecast. That forecast appears in the table below.

It appears that all concur that the national economy is in recession, and that Rhode Island is not exempt. The recession is likely to have begun during the third quarter of 2001 and is likely to

continue into 2002. The recession is officially described as two consecutive quarters of negative gross domestic product growth.

Rhode Island is also likely to be in recession, one that will last through the first quarter of 2002, and possibly into the second. Recovery is expected to begin in the second quarter, with effects not felt until the third quarter, the beginning of FY 2003. Job losses are likely to have already begun, although they are not reflected in the Department of Labor and Training data. That data is generally subject to significant revisions, and is not overly accurate in the short term.

	CY 2000	CY 2001	CY 2002	CY 2003	CY 2004
<b>Annual Growth</b>					
Nonfarm Employment	2.3	0.1	-0.9	1.0	1.0
Personal Income	7.0	4.3	2.9	4.4	4.3
Wage and Salaries Income	7.0	5.7	3.0	4.8	4.7
Farm Income	-8.7	-29.1	-0.7	7.8	3.4
Nonfarm Business Income	6.8	4.4	3.0	9.0	4.5
Dividends, Interest and Rent	7.3	1.0	-2.9	1.5	3.5
Total Transfer Payments	4.7	3.7	9.4	4.2	3.5
<b>Rates</b>					
Unemployment Rate	4.1	4.8	6.3	5.9	5.6
Consumer Price Index (US)	3.4	2.9	1.7	2.2	2.5
Ten Year Treasuries	6.03	5.02	5.00	5.80	5.96
Three Month Treasuries	5.82	3.56	3.20	4.65	4.95

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
<b>Annual Growth</b>					
Nonfarm Employment	2.3	1.4	-1.1	0.3	2.0
Personal Income	6.4	5.9	3.0	3.8	4.5
Wage and Salaries Income	6.3	6.8	3.3	4.0	5.2
Farm Income	10.0	-23.3	-15.6	8.5	5.2
Nonfarm Business Income	7.2	5.8	3.7	6.0	7.0
Dividends, Interest and Rent	7.4	4.4	-2.0	-1.0	4.0
Total Transfer Payments	4.2	4.8	8.5	8.2	2.4
<b>Rates</b>					
Unemployment Rate	4.2	4.0	5.9	6.2	5.7
Consumer Price Index (US)	1.5	2.2	3.4	2.9	1.7
Ten Year Treasuries	5.64	6.03	5.00	5.30	5.8
Three Month Treasuries	4.64	5.82	3.40	3.90	4.80

The recession is thought to be mild to average, with a similar recovery. Nonfarm employment is expected to grow from 475.8 thousand in 2000 to only 476.3 thousand in 2001, and then drop to 472.0 thousand in 2002 before recovering to 476.7 thousand in 2003. By contrast, Nonfarm employment grew from 465.3 thousand in 1999 to 475.8 thousand in 2000, 10.5 thousand jobs, or 2.3 percent. This employment refers to the number of Rhode Island residents working, as opposed to the number of jobs in Rhode Island establishments.

The job loss during FY 2002 is anticipated to be approximately 5,300, which would not be fully recovered until FY 2004.

Personal income is estimated to follow a similar pattern, with FY 2002 showing negative real growth (growth below inflation), but recovering modestly in FY 2003. Inflation is expected to remain below three percent. The Conference uses the United States Consumer Price Index for all Urban Consumers This is measured and reported by the Bureau of Labor Statistics of the Department of Labor.

### **Revenues**

**Taxes.** Revenues from taxes are estimated to decline 1.0 percent in FY 2002 from FY 2001 and grow 2.2 percent in FY 2003 over the revised FY 2002 estimate. Total estimated taxes for FY 2002 of \$1,992.2 million are \$64.7 million below the enacted estimates. FY 2003 total estimated taxes are \$2,036.6 million, \$44.4 million above the revised FY 2002 estimate.

**Personal Income Tax.** The estimates of \$883.5 million for FY 2002 and \$892.0 million for FY 2003 represent growth rates of -3.3 percent and 1.0 percent respectively. However, the growth rates include the fifth year of the five-year phase in of the tax reduction adopted by the 1997 Assembly that lowers tax rates from 27.5 percent of federal liability to the equivalent of 25.0 percent of federal tax liability as converted to percent of federal taxable income. The estimates assume that the rate will drop to the equivalent of 25.0 percent for tax year 2002 beginning January 1. That costs approximately \$89.2 million in FY 2003, which reflects the full phase-out.

The estimates also include adjustments of \$3.6 million lost in FY 2002 and \$7.1 million in FY 2003 due to the changes Rhode Island's tax form resulting from the federal 2001 tax law changes. The federal Economic Growth and Tax Relief Reconciliation Act of 2001 lowered federal tax liability through lower rates and changes to taxable income. The 2001 Assembly adopted legislation that compensates for the lower rates by using effective Rhode Island rates applied to the new federal taxable income. This has the effect of losing the revenues associated with those changes to taxable income, which include more favorable treatment for the taxpayer of education, pension and IRA, and alternative minimum tax provisions in current law.

**Business Taxes.** The Conference estimates \$218.5 million in FY 2002 and \$233.2 million in FY 2003. Growth rates are -7.3 percent and 6.7 percent, respectively. The FY 2002 estimate is \$1.9 million more than enacted.

**Sales Tax.** The Conferees estimate sales tax revenues of \$725.8 million in FY 2002 and \$748.9 million in FY 2003. The FY 2002 revenues are \$6.0 million less than the enacted estimate, and represent growth of \$13.2 million over actual FY 2001 receipts, which is 1.8 percent.

**Other Sales and Use Taxes.** The Conferees estimated \$133.7 million for FY 2002 and \$131.7 million for FY 2003 from the other sales and use taxes, which include motor vehicle fees, and

cigarette and alcohol taxes. The FY 2002 estimate is \$3.1 million below enacted, principally due to cigarettes taxes running behind estimated.

**Other Taxes.** The inheritance, racing and athletics, and realty transfer taxes are estimated to produce \$30.7 million in FY 2002 and \$30.8 million in FY 2003. The FY 2002 estimate is \$0.4 million above the enacted estimate.

**Departmental Receipts.** The estimators adopted estimates of \$237.4 million in FY 2002 and \$179.7 million in FY 2003 for these sources that include licenses and fees, fines and penalties, sales and services, and miscellaneous departmental earnings deposited as general revenues. The FY 2002 estimate is a minor revision of \$0.1 million to the enacted estimate.

FY 2003 drops off mainly due to the end of the hospital license fee in FY 2002, which produces \$56.9 million. That fee has been on a year-to-year basis, and has been extended each year since its inception. However, the estimators must estimate within current law, under which there would not be a fee in FY 2003.

**Other Sources.** Other source revenue consists of transfers to the general revenue fund from gas tax deposited in the transportation fund, the lottery, unclaimed property, and other miscellaneous sources, including tobacco settlement funds. These are estimated to produce \$308.6 million in FY 2002 and \$301.2 million in FY 2003. The FY 2002 estimate is a \$28.9 million increase to enacted estimates, of which \$23.7 million is based on revision to lottery estimates.

FY 2003 is \$7.4 million less than this revised estimate due to dedication of the remaining 1/4 cent of gas tax to transportation under current law (\$1.2 million) and changes to the other miscellaneous sources. The latter includes dedication of bond proceeds earnings to the Sinking Fund in FY 2003 under current law and no Resource Recovery Corporation.

The Lottery is estimated to transfer \$212.0 million in FY 2002 and \$228.7 million in FY 2003. The FY 2002 estimate is an upward revision of \$23.7 million over the enacted estimate, and represents 17.3 percent growth over FY 2001.

Transfers from video lottery terminals are estimated to grow 21.1 percent in FY 2002 to \$147.5 million, and further by 10.6 percent in FY 2003 to \$163.1 million. This does not include any impact from the introduction of new machines in FY 2002 or FY 2003.

	FY 2001		FY 2002 Estimate		FY 2003 Estimate		
Personal Income Tax	\$	913,805,718	11.8%	883,500,000	-3.3%	892,000,000	1.0%
General Business Taxes							
Business Corporations		60,629,245	-10.8%	50,000,000	-17.5%	59,600,000	19.2%
Franchise		8,174,570	5.5%	7,900,000	-3.4%	7,900,000	0.0%
Public Utilities Gross		82,112,494	12.5%	89,400,000	8.9%	93,700,000	4.8%
Financial Institutions		19,105,691	148.7%	9,000,000	-52.9%	9,000,000	0.0%
Insurance Companies		37,448,382	19.5%	34,300,000	-8.4%	34,300,000	0.0%
Bank Deposits		959,329	1.2%	930,000	-3.1%	930,000	0.0%
Health Care Provider		27,319,481	10.9%	27,000,000	-1.2%	27,800,000	3.0%
Sales and Use Taxes							
Sales and Use		712,637,698	12.9%	725,800,000	1.8%	748,900,000	3.2%
Motor Vehicle		44,440,642	3.4%	44,400,000	-0.1%	44,900,000	1.1%
Motor Fuel		1,151,584	79.6%	1,100,000	-4.5%	1,100,000	0.0%
Cigarettes		60,067,612	1.1%	78,600,000	30.9%	76,100,000	-3.2%
Alcohol		9,203,779	-0.1%	9,600,000	4.3%	9,600,000	0.0%
Controlled Substances		4	-	-	-	-	-
Other Taxes							
Inheritance and Gift		26,912,400	-24.3%	22,500,000	-16.4%	22,500,000	0.0%
Racing and Athletics		5,472,514	1.8%	5,700,000	4.2%	5,700,000	0.0%
Realty Transfer		2,556,006	17.6%	2,500,000	-2.2%	2,600,000	4.0%
SubTotal - Taxes		2,011,997,149	10.7%	1,992,230,000	-1.0%	2,036,630,000	2.2%
Departmental Receipts							
Licenses and Fees		154,473,711	41.8%	137,000,000	-11.3%	80,100,000	-41.5%
Fines and Penalties		25,312,503	-9.4%	20,500,000	-19.0%	20,500,000	0.0%
Sales and Services		24,990,438	-25.1%	25,900,000	3.6%	26,500,000	2.3%
Miscellaneous Departmentals		57,021,770	64.0%	54,000,000	-5.3%	52,600,000	-2.6%
SubTotal - Departmentals		261,798,422	27.7%	237,400,000	-9.3%	179,700,000	-24.3%
Taxes and Departmentals		2,273,795,571	12.5%	2,229,630,000	-1.9%	2,216,330,000	-0.6%
Other Sources							
Gas Tax Transfer		8,538,414	-43.2%	1,150,000	-86.5%	-	-100.0%
Other Miscellaneous		97,101,114	16.4%	89,290,000	-8.0%	64,704,000	-27.5%
Lottery		180,743,897	20.3%	212,000,000	17.3%	228,700,000	7.9%
Unclaimed Property		4,460,535	26.7%	6,200,000	39.0%	7,800,000	25.8%
SubTotal		290,843,960	15.3%	308,640,000	6.1%	301,204,000	-2.4%
Total General Revenues	\$	2,564,639,531	12.8%	2,538,270,000	-1.0%	2,517,534,000	-0.8%

	FY 2002	Change to Enacted	FY 2003	Change
<b>Personal Income Tax</b>	\$ 883,500,000	\$ (57,900,000)	\$ 892,000,000	\$ 8,500,000
<b>General Business Taxes</b>				
Business Corporations	50,000,000	(14,000,000)	59,600,000	9,600,000
Franchise	7,900,000	-	7,900,000	-
Public Utilities Gross	89,400,000	8,500,000	93,700,000	4,300,000
Financial Institutions	9,000,000	4,000,000	9,000,000	-
Insurance Companies	34,300,000	3,000,000	34,300,000	-
Bank Deposits	930,000	30,000	930,000	-
Health Care Provider	27,000,000	400,000	27,800,000	800,000
<b>Sales and Use Taxes</b>				
Sales and Use	725,800,000	(6,000,000)	748,900,000	23,100,000
Motor Vehicle	44,400,000	400,000	44,900,000	500,000
Motor Fuel	1,100,000	200,000	1,100,000	-
Cigarettes	78,600,000	(3,900,000)	76,100,000	(2,500,000)
Alcohol	9,600,000	200,000	9,600,000	-
Controlled Substances	-	-	-	-
<b>Other Taxes</b>				
Inheritance and Gift	22,500,000	-	22,500,000	-
Racing and Athletics	5,700,000	300,000	5,700,000	-
Realty Transfer	2,500,000	100,000	2,600,000	100,000
<b>SubTotal - Taxes</b>	<b>1,992,230,000</b>	<b>(64,670,000)</b>	<b>2,036,630,000</b>	<b>44,400,000</b>
<b>Departmental Receipts</b>				
Licenses and Fees	137,000,000	2,776,999	80,100,000	(56,900,000)
Fines and Penalties	20,500,000	(2,500,000)	20,500,000	-
Sales and Services	25,900,000	867,090	26,500,000	600,000
Miscellaneous Departmentals	54,000,000	(1,094,000)	52,600,000	(1,400,000)
<b>SubTotal</b>	<b>237,400,000</b>	<b>50,089</b>	<b>179,700,000</b>	<b>(57,700,000)</b>
<b>Taxes and Departmentals</b>	<b>2,229,630,000</b>	<b>(64,619,911)</b>	<b>2,216,330,000</b>	<b>(13,300,000)</b>
<b>Other Sources</b>				
Gas Tax Transfer	1,150,000	(25,000)	-	(1,150,000)
Other Miscellaneous	89,290,000	2,357,781	64,704,000	(24,586,000)
Lottery	212,000,000	23,700,000	228,700,000	16,700,000
Unclaimed Property	6,200,000	2,900,000	7,800,000	1,600,000
<b>SubTotal</b>	<b>308,640,000</b>	<b>28,932,781</b>	<b>301,204,000</b>	<b>(7,436,000)</b>
<b>Total General Revenues</b>	<b>2,538,270,000</b>	<b>(35,687,130)</b>	<b>2,517,534,000</b>	<b>(20,736,000)</b>